

THE QUEEN'S BENCH
WINNIPEG CENTRE

IN THE MATTER OF THE: *Companies' Creditors Arrangement Act*,
R.S.C. 1985, c. C-36, as Amended

AND IN THE MATTER OF: A Proposed Plan of Compromise or
Arrangement of The Puratone Corporation,
Pembina Valley Pigs Ltd. and Niverville
Swine Breeders Ltd. (the "Applicants")

Application under the: *Companies' Creditors Arrangement Act*, R.S.C.
1985, c. C-36, as Amended

THIRD REPORT OF THE MONITOR

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**THE QUEEN'S BENCH
WINNIPEG CENTRE**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT
ACT*,
R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF THE PURATONE CORPORATION, NIVERVILLE
SWINE BREEDERS LTD., AND PEMBINA VALLEY PIGS LTD.**

APPLICANTS

**THIRD REPORT OF THE MONITOR
DATED NOVEMBER 5, 2012**

INTRODUCTION

1. On September 12, 2012, The Puratone Corporation (“**TPC**”), Niverville Swine Breeders Ltd., and Pembina Valley Pigs Ltd. (collectively the “**Applicants**”) filed for and obtained protection under the *Companies' Creditors Arrangement Act* (the “**CCAA**”). Pursuant to the Order of the Manitoba Court of Queen's Bench (the “**Court**”) dated September 12, 2012 (the “**Initial Order**”), Deloitte & Touche Inc. (“**Deloitte**”) was appointed as the Monitor of the Applicants

(the “**Monitor**”) in the CCAA proceedings and a stay of proceedings was granted in favour of the Applicants.

2. On October 10, 2012, the Court extended the stay of proceedings until November 2, 2012.
3. On October 30, 2012, the Court provided a further extension of the stay of proceedings until November 12, 2012 (the “**Stay Period**”).
4. The Monitor has provided the Court with the following reports:
 - i. The Pre-Filing Report of the Proposed Monitor dated September 11, 2012 (the “**Pre-Filing Report**”) in connection with the Applicants’ application for protection under the CCAA;
 - ii. The First Report of the Monitor dated October 5, 2012 (the “**First Report**”) in connection with the Applicants’ motion to extend the Stay Period; and
 - iii. The Second Report of the Monitor dated October 25, 2012 (the “**Second Report**”) in connection with the Applicant’s motion to further extend the Stay Period.
5. Copies of the Initial Order, the Pre-Filing Report, the First and Second Report(s), all motion materials and orders in the CCAA proceedings, and certain other documents related to the CCAA proceedings have been posted and are available on the Monitor’s website at www.deloitte.com/ca/puratone.

PURPOSE

6. The purpose of this third report of the Monitor (the “**Third Report**”) is to

provide information with respect to the following:

- i. A summary of the Monitor's activities since the Second Report;
- ii. The status of the operations of the Applicants since the Second Report;
- iii. The Applicants' request for an Order approving the Asset Purchase Agreement dated November 1, 2012 between the Applicants, Maple Leaf Foods Inc. or its permitted assignee (the "**Successful Bidder**" or the "**Purchaser**") and the Monitor that has resulted from the Sales Process (the "**Asset Purchase Agreement**");
- iv. The Monitor's Liquidation Analysis;
- v. The Applicants' request for an extension of the stay period; and
- vi. The Monitor's conclusions and recommendations regarding the Asset Purchase Agreement and related relief requested by the Applicants.

TERMS OF REFERENCE

7. In preparing this Third Report, the Monitor has relied upon unaudited interim financial information, the Applicants' books and records, the Affidavits of Raymond Hildebrand sworn September 11, October 4, October 24, and November 1, 2012, and discussions with management ("**Management**") and the Applicants' financial and legal advisors.
8. The financial information of the Applicants has not been audited, reviewed or otherwise verified by the Monitor as to its accuracy or completeness, nor has it necessarily been prepared in accordance with generally accepted accounting principles and the reader is cautioned that this Third Report may not disclose all significant matters about the Applicants. Additionally, none of the Monitor's procedures were intended to disclose defalcations or other

irregularities. If the Monitor were to perform additional procedures or to undertake an audit examination of the financial statements in accordance with generally accepted auditing standards, additional matters may have come to the Monitor's attention. Accordingly, the Monitor does not express an opinion nor does it provide any other form of assurance on the financial or other information presented herein. The Monitor may refine or alter its observations as further information is obtained or brought to its attention after the date of this Third Report.

9. The financial projections attached to this Third Report were prepared by Management (except where noted). Although the Monitor has reviewed the assumptions underlying the projections for reasonableness, financial projections, by their nature, are dependent upon future events, which are not susceptible to verification. Actual results will vary from the information presented and the variations may be material. The Monitor has not prepared a compilation as contemplated by Section 4250 of the Canadian Institute of Chartered Accountants Handbook.
10. The Monitor assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, reproduction or use of this Third Report. Any use which any party makes of this Third Report, or any reliance or decision to be made based on this Third Report, is the sole responsibility of such party.
11. Unless otherwise stated, all monetary amounts contained in this Third Report are expressed in Canadian dollars.
12. Capitalized terms used in this Third Report but not defined are as defined in the Pre-Filing Report, the First Report and the Second Report, as applicable.

ACTIVITIES OF THE MONITOR

13. Since the Monitor's Second Report, the Monitor has engaged in the following activities, among others:

- i. Monitored on a weekly basis the receipts and disbursements of the Applicants and provided updated cash flow statements and cash flow variation analysis, as appended to the First and Second Reports, to both BMO and FCC pursuant to the terms of the DIP Term Sheet;
- ii. Attended to ongoing enquiries from creditors and customers of the Applicants;
- iii. Participated in hearings regarding, and reported to the Court with respect to, the Applicants' request to extend the Stay Period;
- iv. Administered and oversaw the ongoing Sales Process which resulted in a Letter of Intent and the Applicants pursuing an Asset Purchase Agreement with the Successful Bidder;
- v. Provided comments to counsel with respect to the Asset Purchase Agreement; and
- vi. Prepared a liquidation analysis of the Applicants.

OPERATIONS OF THE APPLICANTS SINCE THE SECOND REPORT

14. The Applicants continue to pay employees and remit statutory deductions in the normal course of business, as authorized by the Initial Order. The Applicants are current with respect to all financial obligations owed to their

employees, and there are no amounts owing to employees with respect to the period prior to the Initial Order.

15. Highlights of the Applicants' financial performance for the period from October 22, 2012 to October 28, 2012 are presented in the Cash Flow Variance Analysis prepared by the Applicants attached as Exhibit A. The Monitor's comments on the financial performance of the Applicants during this period are as follows:

- i. Compared with the Revised Cash Flow Statement provided as Exhibit B to the Second Report, the Applicants experienced a favourable variance of approximately \$1.0 million in respect of net cash outflows.
- ii. This variance is primarily attributable to the following:
 1. \$0.5 million favourable variance compared to forecast with respect to cash receipts primarily from (i) collection of feed account(s) arrears (\$0.4 million); and (ii) collection of unbudgeted administration fees and insurance rebates (\$0.1 million).
 2. \$0.5 million favourable variance compared to forecast with respect to cash disbursements primarily attributable to (i) a reduction in ingredient costs due to the timing of purchases (\$0.1 million); and (ii) variances from budget in terms of the timing of contract hog payments (\$0.4 million).

16. As of the date of this Third Report, the Applicants have been able to manage their cash flow through utilization of the authorized DIP Facility as outlined in the Initial Order. As the Applicants are now forecasting to fully utilize the authorized DIP Facility during the week of November 26, 2012, the Applicants will need additional financing as detailed in the Revised Cash Flow Statement

attached hereto as Exhibit B (the “**Revised Cash Flows**”) for the period ending January 27, 2013.

17. The Revised Cash Flows adopt the assumptions as set out in the Notes and Summary of Assumptions (“**Notes and Assumptions**”) set out in Notes 1 to 16 to the Revised Cash Flows.

18. The Monitor’s comments on the Revised Cash Flows to January 27, 2013 are as follows:

- i. The Revised Cash Flows estimate that, for the period October 29, 2012 to January 27, 2013, the Applicants will have gross receipts of approximately \$20.9 million and disbursements of approximately \$28.7 million, representing a net operating cash outflow of approximately \$7.8 million. This assumes full continued operations to that date, and does not reflect any reductions in expenses which will arise after the closing of the Asset Purchase Agreement.
- ii. As appended to the November 1, 2012 affidavit of Raymond Hildebrand, the Asset Purchase Agreement contemplates a closing date of December 14, 2012 (the “**Closing Date**”). However, the \$6.0 million DIP Facility authorized pursuant to the Initial Order is projected to be fully utilized during the week commencing November 26, 2012. Based on the Revised Cash Flows, it is anticipated that, at a minimum, an additional \$1.7 million will required to fund ongoing operations to the Closing Date.
- iii. The Asset Purchase Agreement enables the Closing Date to be extended to the “**Outside Date**” (that is, December 28, 2012) in certain

events, principally to accommodate regulatory approvals. The Revised Cash Flows project that a further approximately \$1.3 million (i.e. a total of approximately \$3.0 million in excess of the currently authorized DIP Facility) will be required if the Closing Date is extended to the Outside Date.

- iv. While post-closing expenditures are likely to be significantly reduced, upon closing, significant KERP payments will be required to be made by Puratone in accordance with the KERP authorized by the Initial Order, and it is nevertheless the case that certain other costs will continue to accrue post-closing.
- v. The Monitor's review of the Revised Cash Flows consisted of inquiries, analytical procedures and discussions relating to information supplied to the Monitor by certain of the Management and employees of the Applicants. Since the Notes and Assumptions need not be supported, the Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Revised Cash Flows. The Monitor has also reviewed the support provided by Management for the Notes and Assumptions, and the preparation and presentation of the Revised Cash Flows.
- vi. Based on the Monitor's review, nothing has come to our attention that causes us to believe that, in all material respects:
 - a) The Notes and Assumptions are not consistent with the purpose of the Revised Cash Flows;

- b) As at the date of this Third Report, the Notes and Assumptions developed by Management are not suitably supported and consistent with the plans of the Applicants or do not provide a reasonable basis for the Revised Cash Flows, given the Notes and Assumptions; or
- c) The Revised Cash Flows do not reflect the Notes and Assumptions.

19. Since the Revised Cash Flows are based on assumptions regarding future events, actual results will vary from the information presented even if the Notes and Assumptions occur, and the variations may be material. Accordingly, the Monitor expresses no assurance as to whether the Revised Cash Flows will be achieved. The Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Third Report, or relied upon by the Monitor in its preparation.

DEBTOR IN POSSESSION FINANCING

20. The Applicants had previously negotiated the DIP Facility with BMO (the “**DIP Lender**”). As detailed in the Pre-Filing Report, the DIP Facility was expected to provide sufficient funding to allow the Applicants to reorganize their affairs under the CCAA proceedings, including pursuing a transaction in accordance with the prior Sales and Investment Sales Process (the “**SISP**”) and the current Sales Process, assuming that a transaction would be closed during the week of November 19, 2012. As the Closing Date has been extended beyond November 19, 2012, in accordance with the Revised Cash Flows, additional DIP financing is required. Based on the Revised Cash Flows, it is estimated that a minimum additional \$1.7 million will be required to fund

operations until the Closing Date, which increases to approximately \$3.0 million if the Closing Date is extended to the Outside Date (December 28, 2012), as described above

21. The DIP Lender has agreed to advance up to an additional \$5.0 million (the “**Increased DIP Facility**”) under the same terms and conditions as the existing DIP Facility as appended to the September 11, 2012 Affidavit of Raymond Hildebrand.
22. Management of the Applicants has advised the Monitor that it believes the Applicants can continue to abide by all of the terms of the Increased DIP Facility.
23. The Increased DIP Facility requires that the existing security for the existing secured debt be amended to secure obligations under the Increased DIP Facility and that the amount of the DIP Lender’s Charge granted in the Initial Order be increased to \$11.0 million to include the full amount of the existing DIP Facility and the Increased DIP Facility.
24. The Monitor notes that the costs of the Increased DIP Facility fall within a range of costs that the Monitor has reviewed in other recent comparable DIP loans.
25. The Monitor notes that funding under the Increased DIP Facility is required on an urgent basis. The quantum of the Increased DIP Facility reflects the cash needs of the Applicants to continue with ongoing operations up to the Closing Date, including in the event that the Closing Date is extended to December 28, 2012, and provides additional funding to address post-closing funding requirements and contingencies.

MONITOR'S COMMENTS REGARDING THE SALES PROCESS

26. As detailed in the September 11, 2012 Affidavit of Raymond Hildebrand, prior to the CCAA proceedings, the Applicants had engaged EYI to facilitate the SISP which commenced in May 2012. Although the Monitor was not yet appointed at the time that the SISP was initiated, the Monitor met with the Applicants, their counsel and EYI several times during the SISP process and was updated as to the process, the current status and the results. Based on the Monitor's review of the SISP and discussions with EYI, the Monitor is of the view that:

- i. The SISP undertaken by EYI and the Applicants was extensive in seeking interested parties;
- ii. The SISP was conducted with the objective of maximizing value for all stakeholders; and
- iii. The SISP was fair and reasonable in the circumstances and was conducted in a fair and reasonable manner by the Applicants and EYI.

27. The Monitor also understands that the SISP was carried out in consultation with the Applicants' senior secured lenders, BMO and FCC (the "**Senior Secured Lenders**"). Accordingly, the Monitor is also of the view that, in conducting the SISP, the Applicants included the largest financial stakeholders, which was appropriate in the circumstances.

28. As detailed in the First and Second Monitor's Reports, the Monitor has continued with a Sales Process in furtherance of the SISP previously undertaken by EYI. Interested parties identified in the SISP process and requesting a Confidential Information Memorandum continued to participate in

the Monitor's Sales Process. Interested parties were provided with adequate Notice of the Intended Process, were advised of the availability of the Monitor and the Applicants to respond to queries during the Sales Process, and were properly advised of the process and submission deadlines. As such, the Monitor is of the view that:

- i. The Monitor approved the Sales Process leading to the Asset Purchase Agreement;
- ii. The Court and other interested parties were aware of the Sales Process as outlined in the First and Second Reports of the Monitor.
- iii. The Senior Secured Lenders did not object to the continuation of the SISP and the Sales Process; and
- iv. The Sales Process leading to the Asset Purchase Agreement was reasonable in the circumstances.

29. As indicated in the Second Report, the Monitor received three (3) final Letters of Intent (the "LOIs") as a result of the Sales Process. The key financial terms of the LOIs are set out in more detail in Confidential Appendix 1, for which a sealing order is being sought.

30. On October 15, 2012, the Monitor advised the Applicants and the Senior Secured Lenders that three (3) LOIs had been received in accordance with the Sales Process. After objectively comparing the submissions, the Monitor, the Applicants and the Senior Secured Lenders all agreed that the Successful Bidder's LOI was the highest and best LOI received.

THE ASSET PURCHASE AGREEMENT

31. As discussed in more detail in the Second Report, after identifying the Purchaser as the highest and best prospective offeror resulting from the Sales

Process, the Applicants, the Monitor, the Purchaser, and their respective counsel spent the ensuing weeks negotiating the form of the Asset Purchase Agreement whereby the Purchaser would acquire substantially all of the assets and business operations and assume certain liabilities of the Applicants.

32. The Monitor has received and reviewed the Asset Purchase Agreement, a redacted copy of which has been appended to the November 1, 2012 affidavit of Raymond Hildebrand, and has agreed to perform its duties thereunder. The Senior Secured Lenders who have the primary economic interest in the estate, given that they will suffer a shortfall, also reviewed the Asset Purchase Agreement and have consented thereto.

Outline of the Asset Purchase Agreement

33. The Asset Purchase Agreement contemplates that the Purchaser will acquire substantially all of the assets and business operations of the Applicants free and clear of all encumbrances other than certain permitted encumbrances, and will assume certain liabilities of the Applicants (the “**Transaction**”). The key terms of the Asset Purchase Agreement are summarized below. Defined terms used in this part of this Report, but not defined herein, have the meanings ascribed to them in the Asset Purchase Agreement.
34. Pursuant to the Asset Purchase Agreement, the Purchaser will purchase all of the Applicants’ assets except the Excluded Assets (the “**Purchased Assets**”) on an “as is where is” basis and will assume certain of the Applicants’ liabilities (the “**Assumed Liabilities**”).
35. The Excluded Assets are comprised of cash and cash equivalents; trust accounts; accounts receivable; certain pre-payments; tax and workers

compensation refunds; claims to reimbursement made before the date of the Asset Purchase Agreement; certain insurance proceeds; certain minute books; and certain real property and buildings described in Schedule “L” to the Asset Purchase Agreement, which consist of certain asset parcels being sold to other parties which the Applicants had initiated prior to the CCAA proceedings.

36. The Assumed Liabilities include Assumed Contract Liabilities, Permitted Encumbrances, Assumed Severance Obligations and Accrued Employee Liabilities.

37. “Assumed Contract Liabilities” refers to assumed real property leases, equipment leases and other contracts and agreements to be assumed by the Purchaser in accordance with the terms of the Asset Purchase Agreement, which other agreements are to be set out in Schedule “A” to the Asset Purchase Agreement. Schedule “A” has not yet been finalized as the parties have not yet determined all of the contracts and agreements to be assumed. The final form of Schedule “A” is to be provided by the Purchaser on November 6, 2012.

38. The intention of the parties is to seek consents from counterparties to the assignment of leases, contracts and agreements described in Schedule “A”, failing which the Court will be asked to make an Order at the next scheduled hearing in this proceeding on November 22, 2012 assigning remaining contracts in accordance with Section 11.3 of the *Companies’ Creditors Arrangement Act*.

39. The “Assumed Severance Obligations” are described in Section 7.4(c) of the Asset Purchase Agreement. The Purchaser has agreed to be responsible for all severance obligations arising after the Closing Date in relation to existing employees who accept offers of employment from the Purchaser.

40. The “Accrued Employee Liabilities” include accrued vacation pay. The Purchase Price is adjusted for the amount being assumed.
41. As a result of the nature of the Applicants’ operations, the Asset Purchase Agreement includes a holdback (the “**Holdback**”) and a mechanism to adjust the Purchase Price (as hereinafter defined) to reflect changes in market pricing and inventory quantities as at the Closing Date. The adjustment mechanism is necessary given that the Purchaser will be acquiring the Purchased Assets at a particular point in time, and inventory counts and values will require some time after Closing to be completed. Both the Applicants and the Purchaser accepted the proposed mechanism for adjusting the Purchase Price. The Asset Purchase Agreement contemplates approximately 45 days after Closing to complete this process, assuming that at that point the parties agree on the final price, at which time the Holdback will be released and payment finalized in accordance with the terms of the Asset Purchase Agreement. The price adjustment and timing mechanism are described in Sections 3.7 through 3.9 of the Asset Purchase Agreement.
42. The Asset Purchase Agreement provides that the Purchaser will offer to employ all of the Applicants’ active employees on terms and conditions substantially similar in the aggregate to the current terms of such employees’ employment, inclusive of any severance entitlements. Certain inactive employees are to be offered jobs if they become active within 6 months from the date of Closing.
43. The purchase price for the Purchased Assets contained in the Asset Purchase Agreement (the “**Purchase Price**”) includes a \$100,000 deposit that is currently being held in Trust by the Monitor (the “**Deposit**”). The balance of

the Purchase Price is to be sent by wire transfer to the Monitor on the Closing Date, with the Holdback to be held by the Monitor in escrow pending the above-noted post-closing Purchase Price adjustment(s).

44. The key conditions to Closing in the Asset Purchase Agreement include Court and regulatory approval, including approvals pursuant to *The Farm Lands Ownership Act* (Manitoba) and the federal *Competition Act*. The Purchaser or the Applicants may terminate the Asset Purchase Agreement if these approvals and certain other conditions for the benefit of the other party are not met or waived, there is a breach by the other party that is not cured within 10 days, or the transaction has not closed by the Outside Date.
45. The Asset Purchase Agreement provides for the assignment of Assumed Contracts by Court order if consents are not obtained from the counterparties. As noted above, if such consents are not obtained, a further motion to the Court may be made pursuant to section 11.3 of the CCAA, which provides a CCAA applicant with a means to obtain an order assigning contracts.
46. The other conditions to closing the Asset Purchase Agreement are standard and the Monitor understands that, once these conditions are met, the parties are expected to close the Transaction.
47. The Monitor also notes that the closing of the Asset Purchase Agreement has been made subject to the Monitor providing a Certificate in which it attests that the Transaction has been completed to the satisfaction of the Monitor. This provision gives the Monitor an opportunity to ensure that the Transaction is appropriately implemented in the period between Court approval and closing, should the Court approve the Asset Purchase Agreement.

48. It is contemplated that the Transaction will close on December 14, 2012.
49. The Monitor understands that all interested creditors have been notified of this motion, and that the Senior Secured Lenders are consenting to the orders requested in the motion.

Secured Debt Facilities

50. As at December 14, 2012, being the anticipated Closing Date of the Transaction (the “Closing”), the secured lender claims are projected to be as follows:

THE PURATONE CORPORATION, NIVERVILLE SWINE BREEDERS LTD., AND PEMBINA VALLEY PIGS LTD.		
PROJECTED BALANCES AS AT DECEMBER 14, 2012		
		Balance (000's)
Bank of Montreal - Operating Line	\$	13,398
Bank of Montreal - HILLRP		28,164
Farm Credit Canada - HILLRP		6,898
Farm Credit Canada - Term Loan		33,384
Manitoba Agricultural Services Corporation		5,000
Other		6,810
Total Secured Debt		93,654
DIP Facility		
Amount authorized pursuant to the Initial CCAA Order	6,000	
Less: Portion of DIP added to Operating Facility	(398)	5,602
Additional Estimated DIP Facility to Dec. 14, 2012		1,700
Total Estimated DIP Facility		7,302
Total Estimated Secured Debt	\$	100,956

51. As detailed in the Pre-Filing Report, the Senior Secured Lenders (BMO and FCC) are the Applicants’ primary secured lenders. BMO’s primary security consists of the sow and hog inventory as well as book debts (accounts receivable). BMO is owed, before consideration of the DIP Facility, approximately \$41.6 million consisting of an operating facility of approximately \$13.4 million and term debt of approximately \$28.2 million. FCC’s primary security consists of real property and operating assets. FCC is

owed approximately \$40.3 million. Other amounts owed to secured lenders total approximately \$11.8 million and include amounts owing to Manitoba Agricultural Services Corporation, a Provincial Crown Corporation, which is owed approximately \$5.0 million, and \$6.8 million under various lease commitments, and other subordinate or postponed borrowings or facilities.

52. Based on the Applicants' Revised Cash Flows, approximately \$7.7 million will be outstanding under the available DIP Facility as at the Closing Date (or \$9.0 million if the Closing Date is extended to December 28, 2012). The DIP Facility does not account for any cash on hand at Closing. As the Asset Purchase Agreement treats cash on hand as an Excluded Asset, it is anticipated that any cash on hand at Closing will be used in connection with the Closing of the Transaction or transferred to an account to be established by the Monitor to deal with post-Closing estate issues.

THE MONITOR'S COMMENTS REGARDING THE ASSET PURCHASE AGREEMENT AND THE TRANSACTION

53. Based on the forgoing, the views of the Monitor regarding the Asset Purchase Agreement can be summarized as follows:

- i. The Monitor is of the view that the SISP and the Sales Process were extensive, fair and reasonable, and that the Purchaser's offer, as represented in the current form of the Asset Purchase Agreement, is the highest and best offer that has emerged from those processes and that is capable of being achieved;
- ii. The consideration being offered by the Purchaser is reasonable and fair and represents the market value of the Purchased Assets in the current state of the hog industry, as evidenced by the extensive

marketing and sales process that has been undertaken and the value of the LOIs submitted by other market participants for the Purchased Assets in that process;

- iii. Under the circumstances, there is no reasonable basis on which to conclude or any realistic prospect that further marketing and sale efforts (or other restructuring efforts or initiatives for that matter) would produce an executable offer superior to the Asset Purchase Agreement; and
- iv. Under the circumstances, there is no reasonable basis on which to conclude or any realistic prospect that further marketing and sale efforts (or other restructuring efforts or initiatives for that matter) would produce an executable offer that would return any value to the unsecured creditors of the Applicants.

THE MONITOR'S LIQUIDATION ANALYSIS

54. If the Asset Purchase Agreement is not approved, and absent these CCAA proceedings, the Senior Secured Lenders would have the right to request immediate repayment of the amounts owed to them and, under such circumstances, the Applicants would not be in a position to meet those obligations and would be forced into liquidation.

55. Based on the latest draft internal financial statements of the Applicants, as at July 28, 2012, the Applicants had total liabilities of approximately \$118.7 million, of which amounts owing to Senior Secured Lenders represented approximately \$86.1 million, including accrued fees and interest.

56. In the event the Asset Purchase Agreement is not approved, it appears unlikely that a going concern sale acceptable to the Senior Secured Lenders would be

possible. In any event, the time necessary to complete an alternate sale would result in substantial additional losses and the Applicants do not have funding available to accommodate such a process.

57. Prior to the commencement of these proceedings, the Senior Secured Lenders both demanded payment and issued Notices of Intention to Enforce Security under the *Bankruptcy and Insolvency Act* (“**BIA**”). Absent a sale of the Applicants’ assets acceptable to the Senior Secured Lenders and approved by the Court, it is likely that the assets of the Applicants would be required to be liquidated either pursuant to a continuation of these proceedings or in a receivership, with a bankruptcy likely to ensue. In those circumstances, it is likely that breeding of sows would cease and there would be an ongoing grow out and liquidation of the hog inventories. In addition, barns would be vacated and winterized and staff terminated as the barns were emptied unless an immediate buyer had been identified.
58. Although future commodity markets can be used to estimate the realizable value of the Applicants’ feed and livestock inventories, the real property and equipment is difficult, if not impossible, to accurately assess. Given that there is already an oversupply of vacant hog barns in Western Canada, the addition of the Applicants’ 41 owned barns would contribute to an already saturated market and would likely further depress the realizable values of such facilities.
59. Considering the oversupply and lack of market liquidity discussed above, based on the Monitor’s estimated liquidation analysis as at August 25, 2012 using information provided by the Applicants as at October 13, 2012, the liquidation value of the Applicants is substantially below the net book value of the assets. Attached as Confidential Appendix 2 is the Monitor’s liquidation

analysis for which a sealing order is being sought. In the Monitor's view, it is necessary to seal the Monitor's liquidation analysis pending the successful closing of the Transaction so as to protect the integrity of the Sales Process.

60. As a result, in the event of the Applicants' liquidation, the Senior Secured Lenders and other secured creditors would suffer a significant shortfall on their outstanding debt.

61. Liquidation would, in the Monitor's view, also:

- i) put at risk the employment of the Applicants' over 300 employees. There would be increased employee retention costs as well as potential operational disruption and, importantly, considerable risk of animal welfare issues arising as a result of employee departures;
- ii) have a significant impact on the Applicants' suppliers. Further costs and disruption through refusal to supply or potential price increases would ensue, and these suppliers would lose a major customer going forward;
- iii) impact the ability of the customers of the Applicants to source supply for their operations; and
- iv) result in significantly increased professional costs.

62. Based on the Monitor's liquidation analysis, and the commentary above, the Monitor is of the opinion that the Asset Purchase Agreement would be more beneficial to the Applicants' stakeholders than a sale or disposition under receivership or bankruptcy.

REQUEST FOR EXTENSION OF THESE PROCEEDINGS

63. Pursuant to the Order made herein on October 30, 2012, the current Stay Period expires on November 12, 2012. In order to facilitate restructuring efforts and complete the Transaction by the Closing Date, the Applicants are requesting an extension of the stay of proceedings to January 15, 2013. Management and the Applicants' counsel have advised that this extension period will provide time to complete the Transaction and give the Monitor and the Applicants sufficient time to complete and report on same, and address matters respecting the post-closing process to be undertaken in respect of the Applicants.
64. As detailed in the First and Second Reports, the Monitor continues to be aware of its duty under Section 23(1)(h) of the CCAA which states that, if the Monitor is of the opinion that it would be more beneficial to the Applicants' creditors if proceedings in respect of the Applicants were taken under the *Bankruptcy and Insolvency Act* ("BIA"), it shall so advise the Court without delay after coming to that opinion. The Monitor has not formed that opinion.
65. The Monitor is of the view that continuing the Applicants' restructuring under the CCAA proceedings will preserve the business as a going concern and will allow time for the completion of the Transaction. This result would provide the most beneficial outcome for many of the stakeholders. Receivership at this time would be very disruptive and costly and, in the view of the Monitor, would be counterproductive to the interests of the various stakeholders.
66. The Applicants are acting in good faith and working diligently to manage their financial and operational restructuring while assisting with completing the Transaction. In accordance with the Revised Cash Flows, the Applicants are

forecasting to be able to operate within the Increased DIP Facility during the extension period.

67. Both BMO and FCC support the requested extension of the stay period.

THE MONITOR'S COMMENTS AND RECOMENDATIONS

68. The Monitor is of the view that the sale contemplated by the Transaction meets the factors set out in section 36(3) of the CCAA. The Asset Purchase Agreement provides for a going concern sale of the Applicants that maintains operations. It provides for continued employment of the Applicants' existing employees, a continued customer for the Applicants' many suppliers and a continued source of supply for the Applicants' customers. The Asset Purchase Agreement is subject to minimal conditions and reflects the fact that the Purchaser's financing is fully committed. The Asset Purchase Agreement reflects the Applicants' efforts to obtain the best possible price for their assets through an extensive sales process which commenced with the SISP in May 2012 and was continued with the Monitor's Sales Process under CCAA. The Monitor has reviewed the SISP previously conducted by EYI and has supervised the Sales Process. Prospective purchasers and investors were provided a reasonable opportunity to participate in the process. In the Monitor's view, the SISP and the Sales Process were carried out in a fair and transparent manner.

69. In addition, the Monitor observes that the restriction as set out in section 36(7) of the CCAA is not applicable. In that regard, the Applicants remain current with respect to all obligations to their employees (both prior to and following the Initial Order), and there is no pension plan in place with respect to the Applicants' employees.

70. It is the Applicants' view that, based on the current debt and projected liquidity position of the Applicants, and the results of the Applicants' initiatives to date, there is no reasonable basis to conclude that any further restructuring or marketing process would result in the emergence of a transaction superior to the one contemplated in the Asset Purchase Agreement, or permit a transaction that would see any recovery to the Applicants' unsecured creditors or shareholders.
71. The Monitor supports the Applicants' view based on the Applicants' financial position, the Monitor's review of the Applicants' restructuring, marketing and sale efforts to date, and the results that have emerged from that process. Based on those results, and in particular the other expressions of interest made by market participants for the Applicants' assets, the Monitor believes that the consideration being offered by the Purchaser under the Asset Purchase Agreement for the Applicants' assets and business is reasonable and fair having regard to their present market value.
72. The LOI submitted by the Purchaser (which is reflected in the Asset Purchase Agreement) contained the highest and best expression of interest received in the Sales Process. Accordingly, the Monitor recommended to the Applicants and the Senior Secured Lenders that the LOI submitted by the Purchaser should be selected as the basis for negotiation of the Asset Purchase Agreement. The Applicants and the Senior Secured Lenders accepted that recommendation and, in accordance with the authority conferred on it by paragraph 31(d) of the Initial Order, the Monitor instructed the Applicants to sign the Asset Purchase Agreement on their own behalf subject to written confirmation from the Monitor that it consented thereto and undertook to perform the obligations

imposed on it thereby. Accordingly, the Asset Purchase Agreement was so executed by the Applicants and the Monitor.

73. It is the Monitor's view that the Transaction, which provides for a going concern sale of the Applicants' business, is more beneficial to the Applicants' stakeholders than a sale or disposition under a receivership or bankruptcy. Liquidation would result in significantly lower realizations for the Senior Secured Lenders than those being offered under the Asset Purchase Agreement. Furthermore it would result in increased costs and complexity.
74. The Applicants are seeking a sealing order for Confidential Exhibit A, which contains a copy of the unredacted Asset Purchase Agreement. Disclosure of this commercially sensitive information and/or the identities of the other bidders and the terms of their LOIs before Closing could negatively affect any future transaction with respect to the property of the Applicants if the Transaction for any reason does not close. The Monitor has also been advised by the Purchaser that the specific pricing formulae contained in the Asset Purchase Agreement are part of the Purchaser's confidential and proprietary trade secrets and business information and that it would be commercially prejudiced if such information was publicly disclosed given that it participates on a daily basis in the purchase and sale of substantial amounts of industry hogs using the said formulae.
75. Given that the amount of the Purchase Price is less than the Senior Secured Lender claims, a claims process will not be required to determine the existence and amounts of any unsecured claims.
76. As it is contemplated by the Asset Purchase Agreement that the Purchaser will offer employment to all of the Applicants' active employees, there will be no

employees or management remaining with the Applicants following the Closing.

77. As it will be necessary to deal with the Excluded Assets, it may be necessary for the Monitor to have access to Management and the Applicants' books and records and other business information following the Closing. Clause 7.9(ii) of the Asset Purchase Agreement provides for the Purchaser to work with the Monitor and the Applicants to put in place an arrangement to address these matters.
78. For the foregoing reasons, the Monitor respectfully recommends that the Court approve the Asset Purchase Agreement and grant the requested Vesting Order and relief sought by the Applicants.
79. In accordance with paragraphs 31(b), (c) and (d) of the Initial Order, the Monitor has accepted certain obligations pursuant to the Asset Purchase Agreement. The Monitor respectfully requests an Order from the Court authorizing the Monitor to administer the obligations contemplated by the Asset Purchase Agreement.
80. The Monitor is of the view that the Applicants have acted, and are acting, in good faith and with due diligence, and respectfully recommends that this Court approve an extension of the stay of proceedings to January 15, 2013.
81. The Monitor respectfully recommends that the Court approve the Increased DIP Facility as it will enable the Applicants to continue to operate on an uninterrupted basis up to the Closing Date.

82. The Monitor also seeks an Order approving the Monitor's Pre-Filing, First and Second Reports and the actions and conduct of the Monitor as described therein.

All of which is respectfully submitted at Winnipeg, Manitoba, this 5th day of November, 2012.

DELOITTE & TOUCHE INC.

In its capacity as Monitor of
The Puratone Corporation, Niverville Swine
Breeders Ltd., and Pembina Valley Pigs Ltd.,
and not in its personal capacity.

A handwritten signature in dark ink, appearing to read "Steven Peleck". The signature is written in a cursive style with a large initial 'S' and 'P'.

Per: Steven Peleck, CA•CIRP
Senior Vice-President

Exhibit A – Budget vs. Actual Cash Flows for the Period October 22, 2012 to October 28, 2012

The Puratone Corporation

Actual cash Flow vs. Budget (ver Oct. 23 - filed with the court)

For the week Ending October 28, 2012

	Budgeted		Actual	(over) under
	<u>Oct. 22 - Oct. 28</u>		<u>Actual</u>	<u>Variance</u>
Hog Revenue	\$ 1,352,840	\$	1,165,347	\$ 187,493
ISO, Gilt & Feeders	71,700		201,173	(129,473)
Feed Revenue	331,750		726,354	(394,604)
Payroll Recovery			66,821	(66,821)
Other Deposits			119,883	(119,883)
	1,756,290		2,279,578	(523,288)
Ingredients	1,313,400		1,170,565	142,835
Production input costs	210,000		210,694	(694)
Operating expenses	491,750		132,655	359,095
Payroll	575,000		569,116	5,884
Other			45,000	(45,000)
Prof. Fees	50,000			50,000
	2,640,150		2,128,030	512,120
	\$ (883,860)	\$	151,548	\$ 1,035,408

Bank Balance, Oct. 21, 2012	\$ (3,034,273)
Closing Balance, Oct. 28, 2012	(2,882,725)
Authorized DIP Line	6,000,000
Bulge	(398,055)
Adjusted DIP Facility	5,601,945
Closing bank balances, October 28, 2012	(2,882,725)
Available DIP Facility before outstanding cheques	2,719,220
Less outstanding cheques	(492,309)
Available DIP facility	\$ 2,226,911

Exhibit B – Revised Cash Flow Statement

The Puratone Corporation
13 Week Cash Flow Projection
October 29 2012 through January 27, 2013

Week Start		Week 1 29-Oct-12	Week 2 5-Nov-12	Week 3 12-Nov-12	Week 4 19-Nov-12	Week 5 26-Nov-12	Week 6 3-Dec-12	Week 7 10-Dec-12	Week 8 17-Dec-12	Week 9 24-Dec-12	Week 10 31-Dec-12	Week 11 7-Jan-13	Week 12 14-Jan-13	Week 13 21-Jan-13	Week 1 - 13 Cumulative Totals
Week End	Notes	4-Nov-12	11-Nov-12	18-Nov-12	25-Nov-12	2-Dec-12	9-Dec-12	16-Dec-12	23-Dec-12	30-Dec-12	6-Jan-13	13-Jan-13	20-Jan-13	27-Jan-13	
Assumptions															
<i>Market Hogs - Hedged</i>															
Shipment Volume	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Price (CAD)	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Market Hogs - Non-hedged</i>															
Shipment Volume	2	5,503	4,812	4,071	5,471	7,413	7,934	7,226	7,970	9,072	8,565	7,924	9,114	7,184	92,259
Price (CAD)	3	170.98	167.36	163.43	159.41	155.03	158.09	154.57	149.19	150.51	151.19	152.14	154.98	158.10	
<i>Feeders</i>															
Shipment Volume	4	-	600	6,000	6,400	-	-	-	-	-	-	-	-	-	13,000
Price	4	48	48	60	59	48	48	48	48	48	48	48	48	48	
<i>Iso-weanlings</i>															
Shipment Volume	5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Price (USD)	6	33.00	33.00	33.00	33.00	33.00	33.00	33.00	33.00	33.00	33.00	33.00	33.00	34.00	
<i>Exchange Rate</i>															
Estimated rate	7	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Receipts															
<i>Sales</i>															
Market hogs - Hedged	8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Market hogs - Non-hedged	8	1,414,000	941,000	805,000	665,000	872,000	1,149,000	1,254,000	1,117,000	1,189,000	1,365,000	1,295,000	1,206,000	1,412,000	14,684,000
12% reduction in pricing factor		(169,680)	(112,920)	(96,600)	(79,800)	(104,640)	(137,880)	(150,480)	(134,040)	(142,680)	(163,800)	(155,400)	(144,720)	(169,440)	(1,762,080)
Premium		29,440	28,960	30,992	27,952	23,552	27,344	23,888	19,760	33,504	29,984	32,896	29,136	25,696	363,104
Premium		13,790	13,055	13,845	15,000	15,115	14,380	15,070	15,100	15,470	15,405	14,230	14,165	14,670	189,295
Subtotal market hogs		1,287,550	870,095	753,237	628,152	806,027	1,052,844	1,142,478	1,017,820	1,095,294	1,246,589	1,186,726	1,104,581	1,282,926	13,474,319
Feeders		48,000	-	28,800	360,000	379,200	-	-	-	-	-	-	-	-	816,000
Iso-weanlings		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gilt sales		47,000	-	-	-	-	47,000	-	-	-	-	47,000	-	-	141,000
Cull sales		70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	910,000
Feed	9	181,750	243,750	443,750	243,750	531,750	243,750	443,750	243,750	531,750	243,750	243,750	443,750	243,750	4,282,750
<i>Other</i>															
Agri-stability	10	775,606	-	-	-	-	-	-	-	-	-	-	-	-	775,606
Payroll recovery		74,600	-	74,600	-	74,600	-	74,600	-	74,600	-	74,600	-	74,600	522,200
Total Receipts		2,484,506	1,183,845	1,370,387	1,301,902	1,861,577	1,413,594	1,730,828	1,331,570	1,771,644	1,560,339	1,622,076	1,618,331	1,671,276	20,921,875
Disbursements															
<i>Operations</i>															
Ingredients costs	11	1,194,000	1,194,000	1,194,000	1,194,000	1,194,000	1,194,000	1,194,000	1,194,000	1,194,000	1,194,000	1,194,000	1,194,000	1,194,000	15,522,000
Escalation		179,100	179,100	179,100	179,100	179,100	179,100	179,100	179,100	179,100	179,100	179,100	179,100	179,100	2,328,300
Production input costs	12	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	2,730,000
Operating expenses	13	788,343	190,714	258,750	88,750	513,250	190,714	258,750	88,750	491,750	110,250	360,714	88,750	238,750	3,668,235
Payroll	14	20,900	575,000	20,900	695,000	20,900	575,000	20,900	575,000	20,900	575,000	20,900	575,000	20,900	3,716,300
<i>Restructuring</i>															
Professional fees	15	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	650,000
KERP		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cure costs		-	-	-	-	-	-	100,000	-	-	-	-	-	-	100,000
<i>Financing</i>															
Interest & principal	16	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DIP charges		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Disbursements		2,442,343	2,398,814	1,912,750	2,416,850	2,167,250	2,398,814	2,012,750	2,296,850	2,145,750	2,318,350	2,014,714	2,296,850	1,892,750	28,714,835
Net Cash Flows		42,163	(1,214,969)	(542,363)	(1,114,948)	(305,673)	(985,220)	(281,922)	(965,280)	(374,106)	(758,011)	(392,638)	(678,519)	(221,474)	(7,792,960)
Opening Cash															
Net Cash Flows		(2,882,725)	(2,840,562)	(4,055,531)	(4,597,894)	(5,712,842)	(6,018,515)	(7,003,735)	(7,285,657)	(8,250,937)	(8,625,043)	(9,383,054)	(9,775,692)	(10,454,211)	(2,882,725)
Net Cash Flows		42,163	(1,214,969)	(542,363)	(1,114,948)	(305,673)	(985,220)	(281,922)	(965,280)	(374,106)	(758,011)	(392,638)	(678,519)	(221,474)	(7,792,960)
Closing Cash (Indebtedness)															
Excess over DIP Facility		(2,840,562)	(4,055,531)	(4,597,894)	(5,712,842)	(6,018,515)	(7,003,735)	(7,285,657)	(8,250,937)	(8,625,043)	(9,383,054)	(9,775,692)	(10,454,211)	(10,675,685)	(10,675,685)
					(110,897)	(416,570)	(1,401,790)	(1,683,712)	(2,648,992)	(3,023,098)	(3,781,109)	(4,173,747)	(4,852,266)	(5,073,740)	(5,073,740)

NOTES AND ASSUMPTIONS

1. Hedged market volumes and prices based on existing Maple Leaf contracts.
2. Market hog production volumes based on TPC production cycle and expected deliveries.
3. Market hog price estimated based on current USDA prices and CME futures prices.
4. Feeder sales expected to be nil, (other than committed contracts) as current and expected prices assume sales are more beneficial at the isoweane stage.
5. Based on historical and expected future sales.
6. Based on historical and expected future prices.
7. Based on current exchange rate and CME futures rates
8. Cash receipts for market hog sales received the week after shipment
9. Primarily wholesale and commercial feed receipts based on historical revenue receipts adjusted for expected changes to payments from customers.
10. Assumes Agristability funding is not received during the cash flow period.
11. Based on recent ingredient costs and payments.
12. Estimate of expected purchases based on recent experience and go forward expectations.
13. Estimated based on contractual obligations and historical experience.
14. Estimated based on current payroll and contract payments.
15. Estimated based on expected legal and accounting fees during the projection period.
16. Estimated interest on current and HILLRP financing.